

APPROVED
AUDIT ADVISORY BOARD REGULAR MEETING
CITY OF FORT LAUDERDALE
CITY HALL 8TH FLOOR CONFERENCE ROOM
THURSDAY, SEPTEMBER 15, 2011
4:00 PM

Board Member	Attendance	Cumulative Attendance 1/1/11 – 12/31/11	
		Present	Absent
Martin Kurtz, Chair	P	4	1
Richard Owen, Vice Chair	P	3	1
Bob Oelke	P	2	0
Roger Ally	P	3	1
Cindy Probeck [arrived 4:06]	P	4	1

Staff

Lynda Flynn, City Treasurer
Linda Cohen, Board Liaison
Amy Knowles, Assistant to the City Manager
Kirk Buffington, Finance Department
Gloria LeClaire, City Controller
Renee Foley, Assistant Internal Audit Director
John Herbst, City Auditor
Kyle Carter, Procurement Department
Stanley Hawthorne, Assistant City Manager
Douglas Wood, Director of Finance
Barbara Hartmann, Recording Secretary, Prototype, Inc.

Communication to the City Commission

None.

1. Call to Order

The meeting came to order at 4:03 p.m.

• Roll Call

2. Review of Meeting Minutes for Approval:

- July 19, 2011**

Motion made by Mr. Oelke, seconded by Mr. Owen, to approve the minutes. In a voice vote, motion passed unanimously.

3. Initial Audit Planning Discussion for 2010-11 Audit Including Risk Assessment

- **Ernst & Young LLP**

Ms. Probeck arrived at 4:06.

Mr. John DiSanto, Ernst & Young Executive Director, distributed a copy of the audit plan and described the reports and opinions Ernst & Young would issue. Mr. DiSanto explained the timetable for the audit process. Mr. Herbst asked why internal control testing would wait until October; he felt performing this step sooner would allow the City to get final delivery of the audit earlier than they had in the past. Ms. LeClaire said this had been put off because of turnover at Ernst & Young, and to allow them to get Shane involved in the interim audit. Ms. Gracelyn Hodge, Ernst & Young Auditor, explained that the timing of the internal controls did not affect the timing of the report. Ms. LeClaire said the trial balance would be provided on December 6.

Mr. Ally said he would like to see what managers were required to provide for each stage of the audit cycle. Mr. DiSanto said this was shared with management in a different document and Ernst & Young tracked this.

Chair Kurtz asked if Mr. Wood was comfortable that staff would be able to comply with the auditors' requests. Mr. Wood said he was confident they would make their best effort. Mr. Herbst suggested hiring temporary accountants to aid in this process.

Mr. DiSanto explained new GASB pronouncements and how this impacted the City. He stated GASB 54 on Fund Balance Reporting would require reclassification of fund balances based on spendability of resources. Mr. DiSanto said management must establish a policy regarding committed versus assigned funds. Ms. LeClaire said they had learned this morning that development of this policy would need to be in place by September 30. Mr. DiSanto said many municipalities had already gone through this process and determined that a formal ordinance or resolution represented committed funds and anything below that represented assigned funds.

Mr. DiSanto stated GASB 60 referred to service concession arrangements and would be effective for fiscal 2013. This related to public/private partnerships when the City transferred asset operations to a third party. Mr. DiSanto stated he was not aware of any such arrangements in the City.

Mr. DiSanto stated GASB 61 amended GASB 14, 34 and 39 and removed anything misleading regarding component units. Mr. Oelke noted that City pensions were not currently reported in a comprehensive way, and asked Mr. DiSanto how this could be reported and brought to light. Mr. DiSanto said GASB was moving toward getting all assets and liabilities on the balance sheet. He stated employers would make changes to how that liability was calculated. He noted this would not take effect until 2016.

Mr. DiSanto stated the City's enterprise activities must use pre-November 30, 1989 FASB pronouncements and could elect whether to use post-1989 FASB pronouncements. He stated most city governments used the pre-November 1989 pronouncements. Mr. DiSanto said GASB had since codified all previous pronouncements in GASB 62 and those pronouncements were not authoritative. He stated this may change the referencing and some of the footnotes. Mr. DiSanto recommended the City adopt this early.

Mr. DiSanto stated GASB was moving toward more private sector type accounting. GASB 63 said deferred inflows and outflows must be reported for a statement of net position.

Mr. DiSanto said Ernst & Young's audit approach began with determining the City's significant accounts. They then determined the processes that influenced those accounts and categorized them. The last processes were to estimate depreciation, self-insurance liabilities, other post-employment liabilities and capital assets. The processes they would perform test of controls over were: revenues of accounts receivable, cash receipts, purchases and accounts payable, cash disbursements and self insurance.

Regarding Federal and State grants and compliance, Mr. DiSanto said they would issue an opinion on expenditures of Federal awards and State financial assistance relative to the financial statements. The major programs were selected and evaluated.

Mr. DiSanto said their overall approach was to look at recording of revenues to obtain an understanding of the different revenue streams. They performed walk-throughs and tested controls over these. He stated they also performed analytic procedures on inter-governmental revenues. They confirmed investment balances and independently verified their value. In capital assets, Mr. DiSanto said they tested acquisitions and dispositions. They also reviewed management's analysis of impairment and performed analytic procedures of recorded depreciation expense. Mr. DiSanto explained they checked the calculations of the City's contributions to the pension plans. Mr. Oelke asked if Ernst & Young would address some issues that the actuaries had brought up regarding the pension plan. Mr. DiSanto said they would determine whether the suggested changes were reasonable.

Mr. DiSanto said they also considered fraud and the risk of management override of controls. He said they used analytic tools that enabled them to scan large amounts of data.

Mr. DiSanto said the Board was entitled to have an executive meeting with the auditor without management present. Board members did not feel this was necessary.

Mr. Wood stated the auditors had indicated they could work on the non-financial portion of the single audit compliance early if the City could identify personnel resources.

4. Discussion of Risk Matrix and Audits in Process – City Auditor, John Herbst

Mr. Herbst stated they had not begun this year's risk matrix. He said they had not yet completed their review of the budget. He planned to issue a memo to the City Commission with his recommendations regarding the budget on Friday. Mr. Herbst said they had a draft audit for the City's code enforcement lien process and he anticipated a final report by the end of the month. He reminded the Board that his reports were confidential until they were presented to the City Commission. Mr. Herbst informed the Board that the parking citation audit would be coming shortly as well.

Mr. Herbst said he had follow-up audits he was asking staff to revisit and he anticipated follow-up reports on those in October/November. They would be working on the risk matrix that would drive the audit plan for next year. He remarked they would be unable to undertake new activities until January.

Mr. Herbst advised the Board to provide him with input regarding how his scoring matrix was created. Mr. Herbst explained to Mr. Oelke that they could perform approximately five to six audits per year. Mr. Oelke asked why the Police and Fire retirement plan was not listed. Mr. Herbst said he and the City Attorney had discussed whether or not Mr. Herbst had jurisdiction over the Police and Fire pension plan and he was not sure. He reminded the Board that all pension plans must have an actuarial study and an external audit which were performed on the Police and Fire pension fund. Someone also conducted a performance review. Mr. Herbst stated this was a very well-managed fund and he did not see a lot of risk. Mr. Oelke felt it would be valuable for Mr. Herbst to create a summary of GERS and Police and Fire pension plans for the City Commission and others. Mr. Herbst said he could look into issuing a semiannual report on the pension funds' performance and a summary in layman's terms of the actuarial report and financial statements.

Mr. Herbst left the meeting at 5:57.

5. Proposed Structure and Process for Follow Up of Audit Findings

o Stanley Hawthorne, Assistant City Manager

This item was heard out of order.

Mr. Hawthorne, Mr. Buffington, Mr. Wood and Ms. Knowles gave a Power Point presentation regarding the process for follow-up on the audit findings, a copy of which is attached to these minutes for the public record.

Mr. Oelke asked if there would be a way to include the internal audits and the external parties. Mr. Hawthorne said this was in progress and the City Manager had a task force examining it.

Chair Kurtz said the Board would like to hear about findings and the status of implementing corrective actions.

Mr. DiSanto felt this was a step in the right direction, and he thought it might take three to four years to issue the CAFR and single audit together in January.

Chair Kurtz said the Board must determine how the timelines intersected with their meetings and schedule accordingly.

o Douglas Wood, Director of Finance

Mr. Wood informed the Board that someone was reconciling all the components of utility billing system. Mr. Oelke asked if Community Plus was used, and Mr. Wood stated this was used by the Building Department for code enforcement.

Mr. Wood clarified that sewer assessments were included with the water bill such as undergrounding electrical utilities. He said it was labor intensive to determine if someone was not paying the water bill portion of the bill or an assessment portion of the bill when determining whether or not to turn off a water account. Mr. Wood hoped to move these assessments off of the water bill to make the process easier.

Regarding the Sanitation Fund receivable, Mr. Wood said they were developing a bad debt write-off policy.

Mr. Wood stated they were changing how they performed calculation of compensated absences. He noted that the database went back to 2002 and had been brought in inconsistently from a conversion. Mr. Wood said he wanted to draw a line in the sand at 2002 and anything up until 2002 would be paid at the 2002 salary.

Ms. LeClaire described how they manually calculated compensated absences and said the auditors did not like this method. She explained compensated absences were like pensions in that they were liabilities that might, but would not necessarily, occur.

Mr. Wood said the City was given a bad report on evaluation of pension investments. He explained that they had erroneously assumed that their source of information was valid and they would perform additional validation this year. Regarding capital assets, Mr. Wood said what they had on the books was not supportable and they were in the process of getting year-to-year in the same format. Mr. Wood remarked that the FAMIS system was a bad system by the way they used it and was "atrocious" because it was complex and not user-friendly.

Mr. Wood thought the City Commission realized the severity of fixed assets and he said the \$500,000 in the budget would not cover it, but it would give them a start. They were working on an RFP to acquire special services to manage the fixed asset process.

Mr. Oelke remarked on the amount of employee time that was wasted because the computer systems were incompatible. Chair Kurtz felt they needed a vision for IT. Mr. Wood said this had been discussed and he felt there were applications out there that would meet most of their needs. He thought Community Plus was the closest thing to it.

Chair Kurtz asked if there was any money in the budget that could be used to do a study on what the long-range vision should be. Mr. Wood thought this would fall under Ms. Knowles' umbrella of performance measures.

Mr. Oelke requested a copy of the client letter and Mr. Wood agree to provide this to Board members.

6. Other Business

None.

7. Next Meeting Date

The Board's next meeting was scheduled for mid-January.

Mr. Buffington requested there be an agenda item in January for him to discuss the evaluation process.

8. Communication to the City Commission

None.

9. Adjournment

There being no further business to come before the Board at this time, the meeting was adjourned at 6:30 p.m.

[Minutes prepared by Jamie Opperee, Prototype, Inc.]